Russia in the Fabric of International Finance

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IN meeting the situation in Russia, I have a suggestion I should like to offer for your consideration—in the same way that Nero used to toss Christians to his lions.

We cannot foretell the course of events in Russia. It may be that the more extreme Communists will hold the control of the Soviets for a long time, and they do not wish to do business with the rest of us in less enlightened parts of the world. As long as they are in power the suggestion I wish to offer is meaningless.

Those who have recently been in Russia talk of "an evolution towards the Right." This is also a possibility, provided Lenin is able to win support from among those he has persecuted and proscribed. He has already done many surprising things and he may be able to build up a political machine of people who are more loyal to his person than to his original theories. "The drift towards the Right" may continue until the Soviets are no more hostile to the rest of the world than are the occasional Socialist governments of Scandinavia.

There is also the possibility of a violent overthrow and the organization of a new government on the basis of a definite break with the communistic tradition. Those who have recently been in Russia feel that this is the least probable of these three possibilities. But I do not think that we can ignore it. The old sword makers of Damascus, in the days of the Khaliphate were in the habit of etching on the blades they made, the Arabic proverb: "Who draws the sword, dies by the sword." There are a tremendous number of blood feuds in Russia—so many that I find it hard to believe in peaceful evolution, however desirable it may seem.

By whichever road events travel, we may assume that sometime—in the fullness of time—there will be a government in Russia which wants to do business with the rest of the world and with which we shall want to do business. I now venture a prophecy—that government will be broke! There will be no cash in the treasury, no income from taxation, no large imports on which to levy tariff duties and, worst of all, no credit.

Such a new government would have to spend money. Even if the Archangel Gabriel should accept the premiership he could not maintain himself in office without funds. The manifold ameliorations which would immediately be required would be costly. Suppose such a government should arise in Russia this winter. It would be faced by the tremendous expenses of famine relief—and there is no money at hand.

Lenin and his friends, in the first days of their power, before hard times had made it fashionable to talk of giving up their theories and "swinging towards the Right," set out with definite intent and remarkable success to make difficult a capitalistic restoration. They were not nearly so worried over a return of the Tsar as they were by the "intrigues of international financiers." All their financial decrees and policies were intended to erect a barbed wire entanglement against the attacks of capitalism. The dilapidation of capital assets, the dispersal of

the national gold reserve, the discredit which frantic printing presses have cast on currency, the repudiation of all foreign debts, have created a situation of exceeding difficulty for any future Russian minister of finance, who wishes to bring his country again in touch with the common economic life of the world. Without any available cash, a new government in Russia will be utterly hopeless unless it can very speedily get credit.

Financially, Russia is bankrupt. But looked at from an economic point of view, she has better bases for credit than most of the European countries now in our debt. In comparison, Belgium, for instance, is like a skilled artisan who has a steady job and a fixed income. There is a very definite and limited amount which he can save, over the imperative demands of consumption, to pay off the debts he owes. Russia is like one of our frontiersmen, who has just taken out a quarter section and who, by merely cutting down the trees, will double and triple the value of his land and has also a chance to uncover a gold mine or strike oil.

Our own financial history—after the Revolution and the Civil War—shows that the way to pay off debts is to open up new and undeveloped resources. It is in tapping virgin territories, by driving transcontinental railroads, by opening mines, that money is made rapidly and easily. Russia today is in a position very similar to that of the United States at the beginning of our industrial development. We had a vast country and considerable energy, but we were very poor. It was only by borrowing heavily from Europe to get the necessary capital that we were able to speed up our industrial development and get rich quickly. From this point of view, Russia has very much better foundations for credit than the more highly industrialized countries of western Europe. They are already fully capitalized; but Russia's earning capacity, her ability to produce more than she consumes would be tremendously increased by wise capital investments. Granted an equality in political stability, the undeveloped countries are very much better borrowers than those already capitalized.

This brings me to the suggestion I wish to offer for your consideration tonight. The whole fabric of international finance is threatened by the *impasse* of the Inter-Allied Debt. Any large scale repudiation or cancellation would be a death blow to "credit." If the formal "promise to pay" of great governments cannot be relied upon, we will find it exceedingly difficult to trust each other as individuals. But when we begin to discuss the payment of these debts, we find ourselves in the unfortunate position of being the principal creditor. The only possible way for the European nations to pay us is by exporting to us their surplus of manufactured goods. To pay, they must send us more than they take from us and the prospect is so terrifying that Congress rushes through an emergency tariff to protect our own industries from such dumping. We are very much worried over the fear of what will happen to the theory of credit if they do not pay us, but not so much worried as we are over the prospect of disaster if they did pay us.

Now, assuming for a moment that a government has arisen in Russia which inspires confidence, I suggest that the conversion of the present bilateral obligations into a three-corner credit arrangement might help to start again the wheels of industry.

Suppose there is a French obligation for $10,000,000 due to us on January 1, 1923. The French cannot pay

except in industrial products which we do not want. Russia, however, needs such manufactured goods—needs them terribly. Suppose we sell that French obligation to the Russian Government in exchange for their long-term note, payable in 1953. The effect would be an immediate stimulus to French industry, because it would give French manufacturers a chance to sell the product of their factories for dollars. It would at once give Russia the purchasing power she so vastly needs. And as far as America is concerned, it would mean receiving a long-term note, underwritten and endorsed by all the undeveloped wealth from the Baltic to the Behring Sea in exchange for a short-term note which we cannot collect.

Suppose a factory in Petrograd needs machinery and its agents discover that it can be procured on favorable terms in England. The Russian Government issues its obligation in our favor for the amount of the purchase price. Our Treasury then credits the British Debt account with that sum. The Russian importer pays his own government for the purchase in his own currency. The British Exchequer pays the exporter in pounds sterling. Once more, we trade a short-term note, which could be paid only in manufactured goods which we are determined not to receive, for a long-term note which will be paid in the raw materials of Russia.

Many other variations of such a scheme for credit conversion will suggest themselves to you. I believe that there is here a possibility for the future which warrants careful consideration. The difficulties to be overcome are obvious, but at present our whole international financial machinery is stalled. Perhaps in Russia our industrial chauffeurs will find the ingredient necessary to enrich the mixture in the carburator and start the engine once more.